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# China in 2014

## Navigating the “New” China

*Tali Levine*

*China Business Information Center Program Manager*

*[www.export.gov/china](http://www.export.gov/china)*



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# *U.S. Commercial Service*

*The U.S. Commercial Service is part of the U.S. Department of Commerce, an agency of the United States government.*

## **Our mission:**

- ▶▶ To promote the export of goods & services from the United States, particularly by small- and medium-sized businesses
- ▶▶ To represent U.S. business interests internationally
- ▶▶ To help U.S. businesses find qualified international partners



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# *Commercial Service in China*

- 19 Cities
  - 5 CS Offices
  - 14 Secondary Markets
- 140+ Officers & Trade Specialists

And in your area:

- US EAC: <http://export.gov/eac/>
- China Business Information Center





# *Presentation Outline*

1.

- The “New” China

2.

- Market Drivers

3.

- What this Means for U.S. Companies

4.

- How We Can Help



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# *Transfer of Power*

- Hu Jintao's Handoff to Vice Chairman Xi Jinping





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# ***CHINA NOW***

- **Historical GDP Growth:**  
Value chain shifting w/ 48% industry, 40% service, and 12% agriculture  
Since 1980 lifted 235 million out of poverty
- **Economic Size:** World's 2<sup>rd</sup> largest economy
- **Consumes** 33–50% of world's coal, cement, steel, iron ore
- **China: US's #3 Foreign Export Market**
  - 2012 U.S. Exports to China **\$110.6 B (up 6%)**
  - 2012 Trade Deficit **\$315 B (record high)**
  - US Worldwide exports **up over 5yrs 35%**
- Foreign Exchange Reserves = **\$3.2 T**



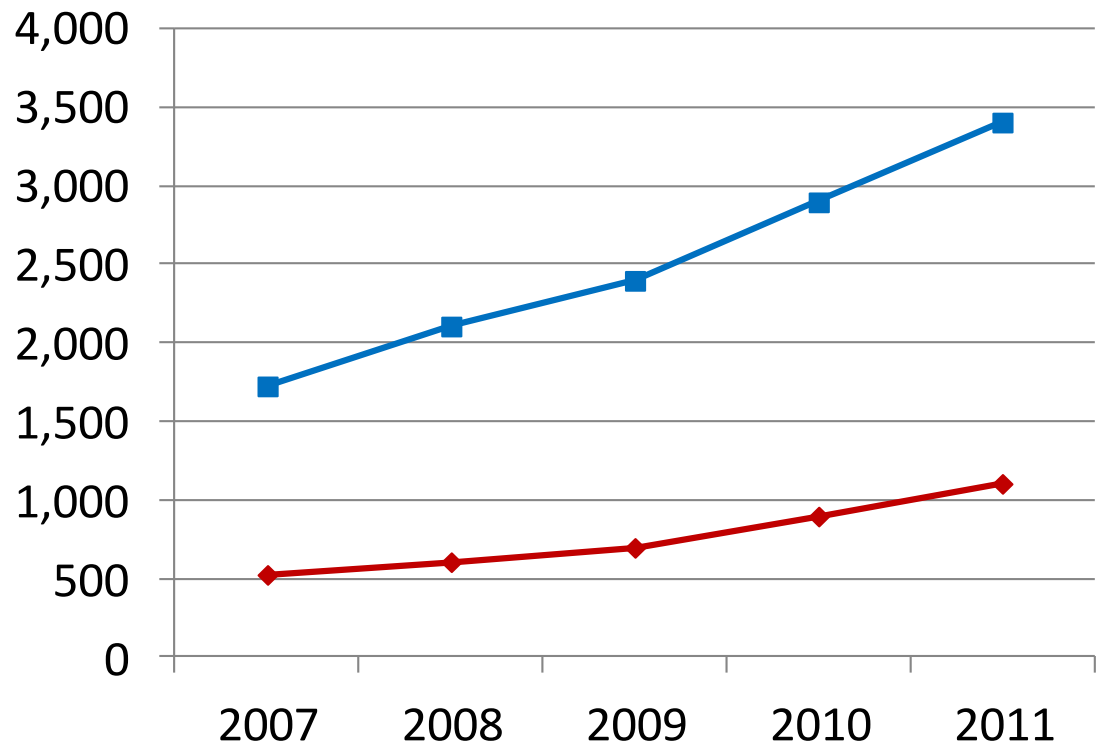


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## *Per-capita Disposable Income*

- Urban US\$3,454
- Rural US\$1,105

—■— Urban per capita  
—◆— Rural per capita



## Growth Moving Inland

### 2012 Results:

Top 5 Cities	GDP Growth
Tianjin	14.1%
Xining	14.1%
Chongqing	14.0%
Lanzhou	13.4%
Xiangyang	13.2%





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## Urbanization

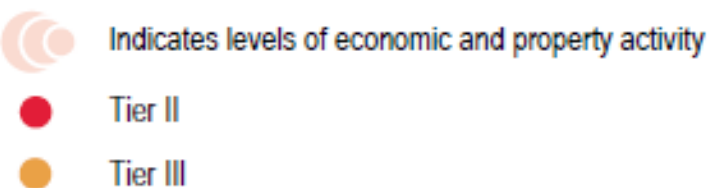
- **171** Cities > 1M (**9** in U.S.)
- 47% Urban 2010
- 51.5% Urban 2015

## Middle Class

- 23% Now
- 48% 2020



## Highest growth: '06-'09





## Growth now coming from the 4<sup>th</sup>, 5<sup>th</sup>, and 6<sup>th</sup> Tier Cities.

Chinese City	Population	US equivalent	European equivalent
Mianyang	782,000	San Francisco	Amsterdam
Neijiang	696,000	Detroit	Frankfurt
Luzhou	668,000	Memphis	Saragossa (Spain)
Nanchong	621,000	Boston	Wroclaw (Poland)
Zigong	601,000	Seattle	Rotterdam
Panzhihua	562,000	Oklahoma City	Malaga (Spain)
Leshan	459,000	Kansas City	Toulouse
Suining	428,000	Atlanta	Bratislava
Yibin	427,000	Cleveland	Bristol

- All the above Chinese cities are in one Province – Sichuan.
- Total estimated number of 4-6<sup>th</sup> tier cities (populations 500,000 plus) is around 500.
- KFC China now has more than 3,000 stores in nearly 700 cities.
- Local consumers are upgrading from cheap domestic brands to up-market items (i.e. Nike, Starbucks and shopping at Walmart & Carrefour).

# *Driver: Emerging Consumer Culture*

## Lifestyle Indicators

- Mobile Phones: 800 million subscribers
- Internet Usage: 457 million users
- Private Vehicles: 26 million cars
- Outbound Travel: 40 million tourists





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# *Luxury Consumption*

- 20% (\$27B) Worldwide Luxury Goods 2015
- 80% Buyers < Age 45 (50% in U.S.)
  - (40% < Age 35)





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# *The Chinese Customer-Millionaires*

- The 2011 Hurun Wealth Report counted 960,000 Chinese ‘millionaires’ with personal wealth of 10 million Yuan or more (USD 1.5 million), up 85,000 individuals or 9.7% year on year. In 2009, there were 825,000 millionaires, growing last year to 875,000
- The Chinese millionaire was born in 1972, and today is 41 years old, a full fifteen years younger than their Western counterparts

## **Where the Chinese Luxury Consumer Lives**

### **Regional Distribution**

#### **Number of Millionaires**

East China	412,500	43.0%
North China	228,000	23.8%
South China	166,000	17.3%
North East	47,500	4.9%
West China	44,400	4.6%
Central China	43,500	4.5%
North West	18,100	1.9%
<b>Total</b>	<b>960,000</b>	<b>100.0%</b>



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# *The Chinese Customer-Billionaire*

- In 2011, China had 4000 RMB billionaires
- China is home to the largest number of self-made RMB billionaires in the world
- Attributed to increasing property prices and fast growing GDP
- Average of 44 years old



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# *A More Realistic Picture...*

## Unemployment

- Official 4.3%
- Unofficial 9%
- 39<sup>th</sup> in the world

## Pollution

- 70% Electricity from coal
- #1 Emitter of fossil fuels
- 10,000 deaths per year HK, Macau and So China caused by air pollution
- price of pollution \$968 million/yr in health and productivity loss





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# WHAT THIS MEANS FOR U.S. COMPANIES



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# *Top 5 Challenges for the Coming Years*

Bureaucracy

Human Resource Constraints

Unclear Laws & Regulations

Unclear Regulatory Interpretations

IP Rights Infringement



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# *Positive Business Outlook*

## Companies *in* China

- 71% expect increase revenue
- 90% are “optimistic” for the future



AmCham Shanghai 2010- 2011 China Business Report

- 85% will increase investment in 2011

China Business Climate Survey 2011

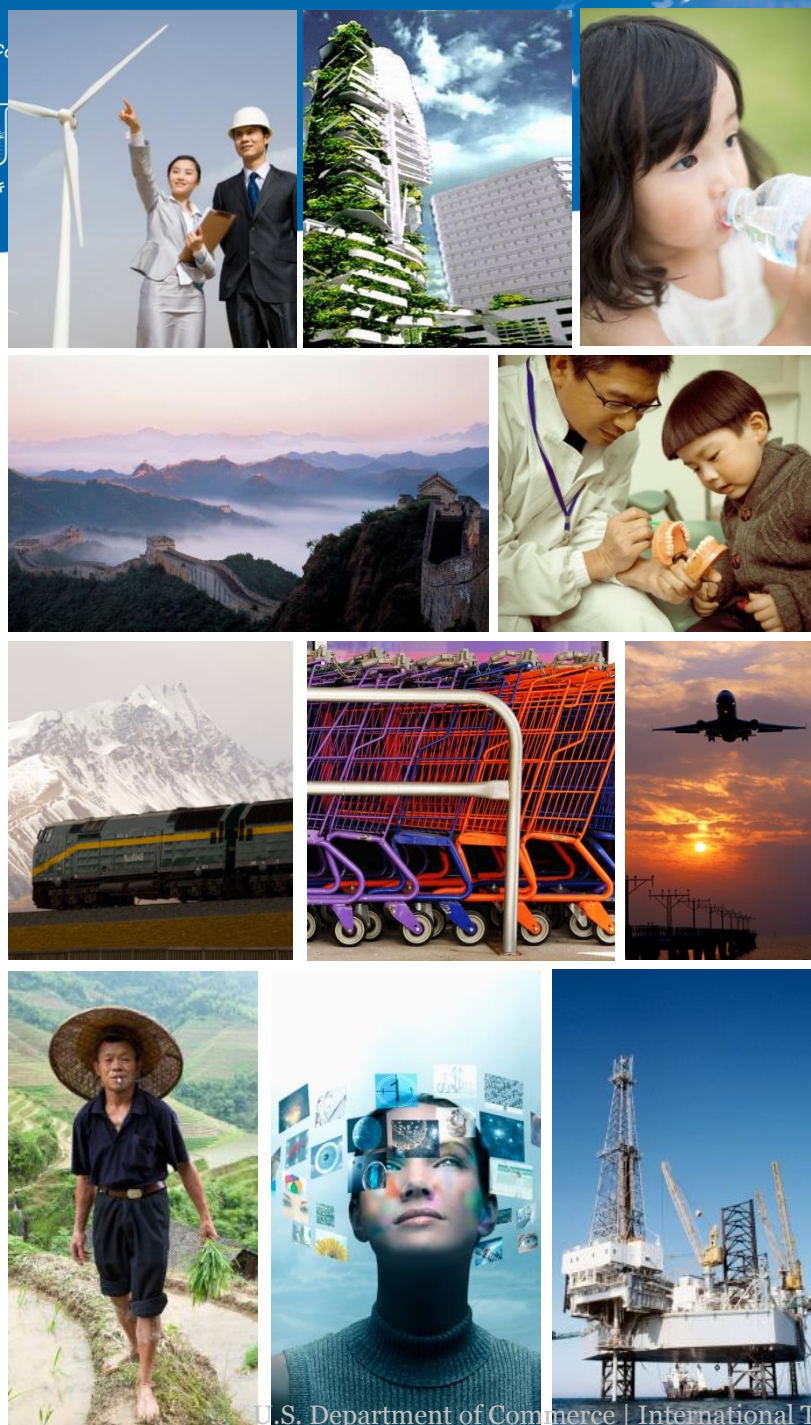


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## *Performance Improving*

- 
- 87% companies reported revenue growth
  - 79% companies “very profitable”
  - 61% increase market share for China products/services

# BEST PROSPECTS



**HEALTHCARE & MEDICAL  
DEVICES  
ENERGY  
GREEN BUILDING  
WATER TREATMENT  
TRAVEL & TOURISM  
RAILWAY & METRO  
RETAIL & FRANCHISE  
AUTOMOTIVES  
AVIATION  
TELECOMMUNICATIONS  
AGRICULTURE  
CHINESE OUTBOUND FDI**

# HEALTHCARE



**Market \$500B - 2016**

**Number 2 market 2020**

**Foreign 60% of total market (\$125B)**

**Hospitals: public down; private up**

**Largest elderly population 13.4%**

# POWER GENERATION



**Generation up >100%  
2010 – 2020 (1935 GW)**

**Connect 160 GW renewable to grid -  
2015**

**Wind up 16% /yr – 2020 (200GW)**

**Nuclear 12.5 GW → 80 GW - 2020**

**ECP**

# GREEN BUILDING



**95% inefficient – \$1T market**

**New floor area up 135% - 2012  
(61M m<sup>2</sup>)**

**12/5 – up 65% energy efficiency**

**Three Star (LEED) accreditation up  
30%**

**Subsidies up to \$12 per m<sup>2</sup> for  
Three Star buildings**

# ENVIRONMENTAL TECH



**Sharp rise regulation air/water pollution**

**298M no safe drinking water**

**\$80B new water purification tech – 12/5**

**Air/water monitor equip. sales  
\$30B - 2015**

**DeNOx equip. \$48B – 12/5**

# RAILWAY & METRO



**\$500B total investment**

**ARWG**

**Freight**

**Gov't – management  
separation/foreign investment**

**Total retail sales: ¥21B - 2012**

**Alstom, GE, Kawasaki**

# RETAIL & FRANCHISE



**Total retail sales: ¥21B - 2012**

**Disposable income \$8K/yr - 2020**

**44% world's luxury goods - 2020**

**242M online shoppers**

**\$40,000/sec**

# AUTOMOTIVE



# AVIATION



**19.3M units - 2012**

**Key auto parts, special vehicles, EV**

**U.S. import \$7.1B - 2012**

**China's per capita car ownership →  
8.5%**

**4,500 RVs/Route 66**

**5,260 new aircraft by 2031**

**Supply, manufacturing,  
design/construction**

**Beijing's new airport**

**82 airports under construction (2/3<sup>rd</sup> of  
worldwide)**

**ACP**

# EDUCATION



**161M compulsory education (9-year) - 2015**

**500,000/yr abroad - 2013**  
**1/3<sup>rd</sup> in U.S.**

**Public kindergarten students < private**

**Online education**

# TELECOMMUNICATIONS



**5 cloud computing cities**

**930 million mobile phone users**

**China Mobile(683M), China Unicom(219M),  
China Telecom(144M)**

**Semiconductor consumption 47% of  
global market - 2011**

**U.S. export: \$14.7B worth of  
semiconductors**



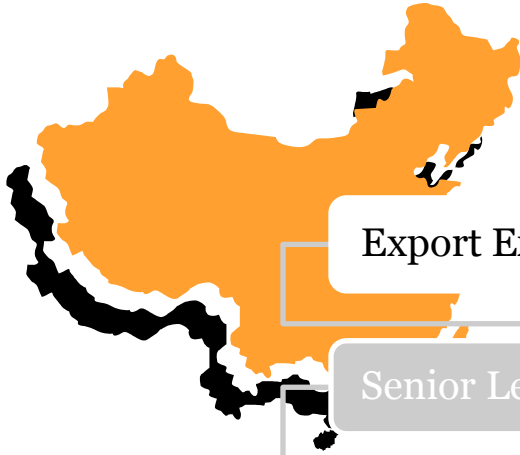
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# HOW WE CAN HELP



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# *Are You China Ready?*



Export Experience

Senior Level Commitment

Financial Resources

Due Diligence

Regulatory Issues

IP Strategy



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## *Practical Tips*

### Understand the Market

- View China as many different markets
- Consider Regulations and Standards
- Visit often – “mind the shop”

### Protect Your Interests

- Due diligence
- Register IP
- Seek legal counsel
- Exit strategy

### Realistic Expectations

- Avoid “Chinaforia”
- Overnight success is uncommon
- If it sounds too good....



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# ***DOs & DON'Ts***

- **Don't**
  - Respond to random emails offering distributorship
  - Go without IPR protection
  - Sign a contract without a lawyer



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# ***DOs & DON'Ts***

- **Do**

- Research your industry and know target areas
- Talk to experts here and in China
- Due diligence on any Chinese company
- Use lawyer with Chinese expertise



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# *Protecting your IPR*

- Register in China
- Blackbox at least one portion
- Keep improving and export older models



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# PTO

U.S. **PATENT AND TRADEMARK** OFFICE RESOURCES

## **The US Embassy IPR Toolkit**

<http://beijing.usembassychina.org.cn/ipr.html>

## **China IPR Advisory Program – 1 hr free consultation**

[http://www.abanet.org/intlaw/china\\_prog2.html](http://www.abanet.org/intlaw/china_prog2.html)

## **USPTO: Free China Conferences**

[http://www.stopfakes.gov/events/china\\_webinar\\_series.asp](http://www.stopfakes.gov/events/china_webinar_series.asp)

## **IP Webinar Series**

[www.stopfakes.gov](http://www.stopfakes.gov)

# SPECIAL EVENTS

## Nuclear Power Trade Policy Mission to Vietnam and China

**Dates:** May 16-23

**Contact:** the MAS office and David Kincaid

**Comments:** The Chinese market for nuclear power is expected to grow to nearly \$300 billion by 2020. U.S. companies operating in this sector are encouraged to join this mission to be led by U.S. DOE, DOC, State, and the White House

## Shale Gas Workshops

**Dates:** 1<sup>st</sup> workshop end April, 2<sup>nd</sup> 07/25, 3<sup>rd</sup> and 4<sup>th</sup> TBD

**Contact:** Andrew.Billard@trade.gov

**Comments:** Four technical workshops over the course of the year to help promote the development of shale gas in China. Each workshop will have opportunities for U.S. industry to apply to participate. Audience will consist of Chinese enterprises learning to develop shale and Chinese regulators

# SPECIAL EVENTS

## SINO-U.S Oil Spill & Emergency Response Management Seminar & Expo



**Dates:** June 4-6, 2013

**Venue:** Qingdao, Shandong – China

**Contact:**

Joshua.Halpern@trade.gov or  
Hengyan.Tian@trade.gov

**Comments:** The Expo opportunity for U.S. firms to meet influential leaders and business contacts while broadening their understanding of the maritime safety management market in China

## GROUNDWATER & SOIL REMEDIATION TRADE MISSION TO CHINA



**Dates:** July 22-29, 2013

**Venue:** Beijing, Zhengzhou, Tianjin

**Contact:** U.S.-China Clean Tech Center (LA) Yumin Yeh

Email: yumin.yeh@icet-usa.org

**U.S. Commercial Service (Beijing)**

Andrew Billard

Email: andrew.billard@trade.gov **U.S.**

**Dept. of Commerce (DC)**

Office of Energy & Environ. Industries

Maureen Hinman

Email: Maureen.Hinman@trade.gov

China Office: 1-202- 482-0627

**Comments:** Trade mission to assist U.S. firms to successfully enter the Chinese groundwater and soil remediation market.



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